

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: FRONTIER COMMUNICATIONS OF IOWA, INC.	DOCKET NO. RPU-99-4
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ORDER INITIATING PRICE REGULATION PLAN REVIEW

(Issued December 29, 1999)

Pursuant to IOWA CODE § 476.97(9) (1999), the Utilities Board (Board) is initiating a review of the operation of Frontier Communications of Iowa, Inc. (Frontier), under price regulation.

THE PRICE REGULATION STATUTE

IOWA CODE § 476.97, enacted in 1995, opened a new era in the regulation of local telephone service in Iowa. The statute provides rate-regulated local exchange telephone companies with the option of changing from traditional rate regulation to a form of price regulation. Price regulation offers local telephone companies such as Frontier a greater incentive to seek out efficiencies in their operations while offering their customers the potential for greater price stability.

Price regulation uses a system of prices that are tied to general economic conditions. The company's prices for service are no longer directly related to the costs the company incurs to provide those services. Instead, the company's prices are tied to a combined index that measures general inflation or deflation in the

economy and an assumed increase in industry productivity. This gives the company a greater incentive to offer innovative services and find new efficiencies while customers receive the benefit of more predictable prices.

Price regulation does not completely eliminate the Board's role in regulating these companies. The Board continues to regulate, for example, the quality of service offered by the companies to their customers; the price of the unbundled services they sell to potential competitors; and the manner in which they price certain "nonbasic communications services" and "basic communications services"¹ in order to prevent cross-subsidization.

FRONTIER'S PRICE REGULATION PLAN

On September 1, 1995, Frontier filed a proposed price regulation plan for Board review. The plan was filed pursuant to IOWA CODE § 476.97(1), which was then identified as § 476.30B. As a result of negotiations with the Consumer Advocate Division of the Department of Justice (Consumer Advocate), Frontier filed a revised price regulation plan on December 21, 1995. The revised plan was approved by the Board to become effective December 31, 1995, for a term of five years.

¹ IOWA CODE § 476.96(1) defines "basic communications services" to include, at a minimum, basic local telephone service, switched access, 911 and E-911 services, and dual party relay service, along with any other two-way switched communications service the Board finds to be consistent with community expectations and the public interest. "Basic local telephone service" is separately defined as the provision of dial tone access and usage within a local exchange area, including but not limited to residence and business services, extended area service, white pages directory listings, and other services. See IOWA CODE § 476.96(2). "Nonbasic communications services" are all communications services subject to the Board's jurisdiction but not deemed to be basic communications services. See § 476.96(6).

As a part of the plan, Frontier's basic communications rates were reduced by 6 percent. This represented an annual revenue reduction for Frontier of \$611,644. Since the initial filing, Frontier has not raised its prices for basic communications services. Instead, in 1997 the combined index indicated a price decrease of 0.6 percent was appropriate. Frontier opted to defer the decrease for one year, as permitted under its plan, and in 1998 the combined index indicated a price decrease of 2 percent was appropriate. Frontier therefore implemented, on [December 31?], 1998, a total price decrease for basic communications services of 2.6 percent.

Frontier's plan also requires that intrastate access service rates are to be reduced to average interstate levels in a series of reductions over the five-year term. When completed on December 31, 2000, Frontier's annual Iowa access revenues will be reduced by just under \$4,300,000, or about 41 percent.

Finally, Frontier's plan included a facilities modernization schedule that required Frontier to make numerous equipment and service upgrades by the end of 1996. These included 100 percent digital central office switches, interLATA and intraLATA equal access in all exchanges, and the availability to all Frontier customers of custom calling services like call waiting, call forwarding, three-way calling, and speed calling. These upgrades were completed by the end of 1996.

AUTHORITY FOR REVIEW OF THE PRICE REGULATION PLAN

IOWA CODE § 476.97(9) provides that the Board must review a local exchange carrier's operation under a price regulation plan, with notice and an opportunity for hearing, within four years of the initiation of the plan and prior to the

termination of the plan. As a part of that process, the carrier, Consumer Advocate, or any person may propose, and the Board may approve, any reasonable modifications of the plan as a result of the review, except that such modifications shall not require a reduction in the rates for any basic communications services.

Pursuant to this authority, the Board is initiating this review proceeding and establishing a procedural schedule that includes notice and an opportunity for hearing. In order to provide notice to interested persons, the Board will serve copies of this order on all parties to Docket No. RPU-95-12, the docket in which the Board reviewed Frontier's 1995 price regulation plan. The Board will not, however, restrict participation in this review to the parties to that 1995 docket; instead, the Board will set a new intervention deadline and will require that any person interested in participating in this docket file a petition to intervene on or before that deadline. In other words, parties to the 1995 docket are not automatically made parties to this review proceeding, but must indicate their continuing interest in the matter by an appropriate filing.

AREAS OF INQUIRY

This is the first price regulation plan review proceeding the Board has undertaken. Thus, for the guidance of the parties, the Board will identify certain areas of inquiry that it expects to consider in this docket and directs Frontier to address each of these subjects in its initial testimony. The areas of inquiry include:

1. Should the Board continue to use the gross domestic product price index, as published by the federal government, for an inflation measure, and 2.6

percentage points for a productivity measure, or should the Board initiate a rule making proceeding to adopt different measures, pursuant to IOWA CODE

§ 476.97(3)"a"(5)?

2. How have Frontier's prices for nonbasic communications services been affected by price regulation?

3. How have Frontier's service offerings, both basic and nonbasic, changed since the initiation of price regulation?

4. What investments has Frontier made in communications infrastructure, efficiency improvements, and technological innovation since the initiation of price regulation? In addition, provide any new or revised modernization plan Frontier may have developed since it began operation under price regulation.

5. What has Frontier done to ensure the universal availability of high-quality communications services since the initiation of price regulation?

6. What new communications products or services has Frontier introduced since the initiation of price regulation?

7. How do the nature and amount of service complaints received by Frontier prior to the price plan compare to the complaints received while operating under the plan?

8. What savings in regulatory costs and delays has Frontier experienced since the initiation of price regulation?

9. Describe Frontier's actions with respect to private line service, LADS, or similar services that can be used to provide digital connections between designated

locations, including a description of any changes in regulatory status and any price changes that may have been implemented by Frontier.

10. Section IV.C of Frontier's price regulation plan provides that Frontier may change any nonbasic communications service price upon proper notice, but increases in Frontier's aggregate revenue weighted nonbasic communications service prices shall not exceed 6 percent in any 12-month period. What has been the effect of the 6 percent limitation on changes in Frontier's prices for nonbasic communications services?

ORDERING CLAUSES

IT IS THEREFORE ORDERED:

1. The Board, on its own motion and pursuant to IOWA CODE § 476.97(9), is initiating a review of Frontier's operation under its price regulation plan, approved by the Board on December 21, 1995, in Docket No. RPU-95-12.
2. The following procedural schedule is established for this proceeding:
 - a. Frontier shall file prepared direct testimony addressing the each of the areas of inquiry identified in this order, with supporting exhibits and workpapers, on or before February 4, 2000.
 - b. Consumer Advocate and any intervenors shall file any prepared direct testimony, with supporting exhibits and workpapers, on or before March 10, 2000.
 - c. Applicants shall file any rebuttal testimony, with supporting exhibits and workpapers, on or before March 24, 2000.

d. A hearing for the purpose of receiving testimony and cross-examination of all testimony will commence at 10 am on April 2, 2000, in the Board's hearing room at 350 East Maple Street, Des Moines, Iowa. Parties shall appear at the hearing one-half hour prior to the time of hearing to mark exhibits. Persons with disabilities requiring assistive services or devices to observe or participate should contact the Board at 515-281-5256 to request that appropriate arrangements be made.

e. Any party desiring to file an initial brief may do so on or before April 26, 2000.

f. Any party filing an initial brief may file a reply brief, responding to the arguments raised in any other party's initial brief, on or before May 5, 2000.

5. In the absence of objection, all workpapers shall become a part of the evidentiary record at the time the related testimony and exhibits are entered in the record.

6. In the absence of objection, all data requests and responses referred to in oral testimony or cross-examination which have not previously been filed with the Board shall become a part of the evidentiary record. The party making reference to the data request or response shall file an original and six copies at the earliest possible time.

7. In the absence of objection, if the Board calls for further evidence on any issue and that evidence is filed after the close of hearing, the evidentiary record

shall be reopened and the evidence will become a part of the evidentiary record five days after filing. All evidence filed pursuant to this paragraph shall be filed no later than seven days after the close of hearing.

UTILITIES BOARD

/s/ Allan T. Thoms

/s/ Susan J. Frye

ATTEST:

/s/ Judi K. Cooper
Executive Secretary, Deputy

/s/ Diane Munns

Dated at Des Moines, Iowa, this 29th day of December, 1999.